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Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

MONTANA HEALTH FACILITY AUTHORITY DEPARTMENT OF COMMERCE

Report on the Examination of Financial Statements Fiscal Year Ended June 30, 1985

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The Montana Health Facility Authority (MHFA) was established to help contain health care costs by providing low cost financing of capital expenditures for nonprofit Montana health institutions. As of June 30, 1985, MHFA had issued debt totaling $43,140,000 to provide financing for participating institutions. We issued an unqualified opinion on the financial statements of the authority and our report contains no recommendations.

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Direct Comments/Inquiries to:
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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant impact on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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Office of the Legislative Auditor

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

Examination of Financial Statements
Fiscal Year Ended June 30, 1985

Members of the audit staff involved in this audit include: Lorry Parriman, Manager; Robert Ricker, Supervisor; Brian Farmer, Senior Auditor; and William O'Donnell, Staff Auditor.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JAMES GILLETT
FINANCIAL-COMPLIANCE AUDITS
JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:
JOHN W. NORTHEY

April 1986

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Health Facility Authority of the Department of Commerce. The authority's written response to the report is included in the back of the audit report. We would like to thank the administrator, his staff, and Department of Commerce personnel for their cooperation and assistance during the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

MONTANA HEALTH FACILITY AUTHORITY

BOARD MEMBERS

	Term Expires
Mary D. Munger, Chairman	June 30, 1987
Charles V. Shewey, Vice Chairman	June 30, 1989
Sister Mary Serena Sheehy, Secretary	June 30, 1986
Harold Poulsen	June 30, 1988
R.H. Robinson	June 30, 1988
Dr. Amos Little, Jr.	June 30, 1989
Vacant	June 30, 1988

AUTHORITY STAFF

Jack Nielson	Administrator
Helen Julian	Administrative Assistant
Tracy Hayes	Secretary

INTRODUCTION

We performed a financial-compliance audit of the Montana Health Facility Authority (MHFA) of the Department of Commerce for the fiscal year ended June 30, 1985. The objectives of the audit were to: 1) determine if the authority's financial statements present fairly its financial position at June 30, 1985, and the results of its operations for the fiscal year then ended; 2) determine the authority's compliance with applicable laws and regulations; and 3) make recommendations for improvements in the authority's management information system and internal controls.

This report contains no recommendations to the authority. Areas of concern deemed not to have a significant effect on the successful operations of the authority are not included in the report, but have been discussed with management. The prior audit of the authority for the fiscal year ended June 30, 1984, contained no recommendations.

We reviewed compliance with state laws and regulations that could have a material impact on the financial statements of the authority. In our opinion, the authority complied with state laws and regulations tested. Nothing came to our attention that causes us to believe untested items are not in accordance with applicable laws and regulations.

We thank the administrator, his staff, and the Department of Commerce personnel for their cooperation and assistance during our audit.

BACKGROUND

The Montana Health Facility Authority (MHFA) was established during the 1983 Legislative Session to provide low cost financing of capital expenditures for nonprofit Montana health institutions. MHFA is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Legislature. The authority is attached to the Department of Commerce for administrative purposes. Financial accounting for the board's operations

is performed by the department's Management Services Division. The authority currently administers the following two programs.

The Pooled Loan Program is designed to provide financing and refinancing for equipment and minor improvement costs of qualified health institutions. Under this program, the authority issues debt to establish a pool of funds for loans to participating institutions. The bond indenture provides for the trustee to invest the bond proceeds until needed for loans to project participants. The proceeds are loaned to qualifying health institutions at rates which reflect the rates paid by the authority on the bonds plus the ongoing program costs. There was one bond issue for the Pooled Loan Program totaling $23.5 million issued during the audit period.

The Single Project Financing Program authorizes tax exempt financing on a project-by-project basis. Bonds or notes are issued for each of the individual projects under this program. The authority has issued debt totaling $19,640,000 for three projects under this program ranging from $440,000 to $18 million. Interest and other associated costs are paid by the participating institutions.

Section 90-7-121, MCA, requires an annual audit of the financial activity of the authority. This is the second audit performed of MHFA since its inception. During the initial year of operations the authority received applications but no debt was issued and no loans were granted. The costs associated with operations in the initial year were paid from the proceeds of a $35,000 inter-entity loan from the state General Fund. The authority repaid this loan in October 1984.

INTERNAL CONTROL

We have examined the financial statements of the Montana Health Facility Authority for the fiscal year ended June 30, 1985. We issued our opinion dated December 19, 1985, on these statements. As part of our examination, we made a study and evaluation of the system of control of the Montana Health Facility Authority which is administered through the Department of Commerce.

Our study evaluated the system as required by generally accepted auditing standards and Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. We classified controls in these categories: 1) expenditures; 2) payroll; 3) revenue; and 4) cash.

Our study included the control categories listed. Through our study, we determined the nature, timing, and extent of our auditing procedures. We performed substantive audit tests on expenditures, payroll, revenue, and cash because it was more efficient to do so. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the Montana Health Facility Authority is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Montana Health Facility Authority. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

The preceding four paragraphs are intended solely for the use of management and the Legislature and should not be used for

any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

AUDITOR'S OPINION LETTER
AND AGENCY FINANCIAL STATEMENTS

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial statements the degree of reliance which can be placed on the amounts presented. The opinion expressed means the reader may rely on the fairness of the amounts presented on these statements when analyzing the Montana Health Facility Authority's operations for fiscal year 1984-85. Because these financial statements were adjusted and are materially different from the state's accounting records, the reader may not rely on the fairness of amounts recorded on the Statewide Budgeting and Accounting System.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JAMES GILLETT
FINANCIAL-COMPLIANCE AUDITS
JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Balance Sheet as of June 30, 1985, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Changes in Financial Position of the Montana Health Facility Authority Enterprise Fund for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards and Standards for Audit of Governmental Organizations, Programs, Activities, and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to in paragraph one present fairly the financial position as of June 30, 1985, and the results of operations and the changes in the retained earnings of the Montana Health Facility Authority Enterprise Fund for the fiscal year ended June 30, 1985, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 19, 1985

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
BALANCE SHEET - ENTERPRISE FUND
JUNE 30, 1985

ASSETS

Cash	$11,632
Fixed Assets (net of accumulated depreciation)	7,809
Total Assets	$19,441

LIABILITIES AND RETAINED EARNINGS

Liabilities:	
Compensated Absences	$ 3,006
Accrued Expenditures	2,444
Accounts Payable	170
Total Liabilities	5,620
Retained Earnings:	
Unrestricted	13,821
Total Retained Earnings	13,821
Total Liabilities and Retained Earnings	$19,441

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

REVENUES	
Fee Income	$107,855
Total Revenues	107,855
EXPENSES	
Personal Services	46,427
Contracted Services	12,009
Supplies and Materials	2,923
Communications	3,981
Travel	7,037
Rent	2,219
Repairs and Maintenance	538
Other Expenses	6,771
Depreciation - Equipment	356
Prior Year Expenditure Adjustment	1,360
Total Expenses	83,621
Revenues Over Expenses	24,234
Unrestricted Retained Earnings Beginning of Period	(10,413)
Unrestricted Retained Earnings End of Period	13,821
Total Retained Earnings	$13,821

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
STATEMENT OF CHANGES IN FINANCIAL POSITION
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

SOURCES	
From Operations:	
Revenues Over Expenses	$24,234
Depreciation	356
Liability for Compensated Absences	3,006
Accrued Expenditures	2,614
Cash Provided by Operations	30,210
Total	30,210
USES	
Purchase of Fixed Assets	8,165
Total	8,165
Increase (Decrease) in Cash	$22,045
Cash - Beginning of Period	(10,413)
Cash - End of Period	$11,632

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 1985

1. AUTHORIZATION

The Montana Health Facility Authority is a quasi-judicial board created by the 48th Montana Legislature with health care cost containment as its purpose. In the fulfillment of this purpose, the authority provides a variety of capital financing and refinancing alternatives to eligible health facilities in Montana. The authority may in each biennium issue bonds and notes in an aggregate principal amount not to exceed $150 million, exclusive of bonds or notes issued to refund its outstanding bonds or notes. Obligations issued by the authority do not constitute a debt, liability, obligation, or pledge of the faith and credit of the state but are payable solely from the revenues or assets of the health institution being financed. The authority is attached to the Montana Department of Commerce for administrative purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Montana Health Facility Authority uses the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

B. Nature of Fund

The fund maintained by the authority, which conforms with authorizing legislation and authority resolutions, is described as follows:

Enterprise Fund

The Enterprise Fund is used to account for operations (a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or (b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

C. Loans

Eligible health facilities have indicated in writing their intent to borrow all of the authority's available loan funds. The loans, in many instances, are secured by first mortgages or security interests in the land, buildings, and related facilities and equipment financed by the authority and utilized by the health facilities. In all remaining transactions, loan payments are secured by standby letters of credit from rated banks. Loan payment receivables correspond to the amortization of the respective revenue bonds and notes outstanding.

D. Project Financing

Resolutions adopted by the authority have provided for trust and other agreements that establish specific funds to account for the proceeds of the various bond and note issues, mortgage and revenue notes receivable, debt service payments, payments by participating health care institutions, construction costs, and issuance costs. During fiscal year 1985, specific funds established by agreements were held by trustees and another participating financial institution. Revenues are collected and disbursements made only in accordance with the provisions of applicable bond and note documents.

E. Fixed Assets

Fixed assets are carried at cost less accumulated depreciation. Depreciation is provided for using the straight-line method over the respective estimated useful lives of the assets.

F. Inventories

Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. The amount of supplies inventory on hand at June 30, 1985, was immaterial.

3. REVENUE BONDS PAYABLE (NET)

Issue	Due	Interest Rate	Amount
Pooled Loan Program Series 1984A Variable Rate Revenue Bonds	1991	Variable Rate Demand Bonds	$23,500,000
Billings Deaconess Hospital Series 1985 Hospital Facilities Variable Rate Revenue Bonds	1989-2015	Variable Rate Demand Bonds	18,000,000
Revenue Bonds Outstanding			41,500,000
Unamortized Bond Discounts Issuance Costs			(1,173,109)
Bonds Payable (Net)			$40,326,891

Maturities on Revenue Bonds Payable are as follows:

Year ended June 30...	
1989	$ 100,000
1990	100,000
1991	100,000
1992	23,600,000
1993	100,000
1994	100,000
1995	100,000
1996-2000	1,200,000
2001-2005	2,300,000
2006-2010	4,600,000
2011-2015	9,200,000
	$41,500,000

The bonds are payable solely from Loan Repayments to be made by Health Institutions pursuant to Loan Agreements and, further, from the funds created by the Indenture and investment earnings thereon. The bonds do not constitute a debt or liability of the state of Montana or of any political subdivision thereof or a pledge of the faith and credit of the state of Montana or any such political subdivision, other than the authority, but shall be payable solely from the funds provided therefor. Neither the state of Montana nor the authority shall be obligated to pay the principal of the bonds, or the interest thereon, except from the funds described above, and neither the faith and credit nor the taxing power of the state of Montana or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the bonds. The issuance of the bonds does not directly or indirectly or contingently obligate the state of Montana or any political subdivision thereof to levy or pledge any form of taxation whatever therefor or to make any appropriation for their payment. The authority has no taxing power.

4. 1984 SERIES A VARIABLE RATE REVENUE BONDS FUNDS

The trust indenture governing the Pooled Project Financing 1984 Series A Variable Rate Revenue Bonds requires the maintenance of the following funds:

	Cash and Investments June 30, 1985 Balance
Bond Fund - Interest Account	$ -0-
Bond Fund - Bank Interest Account	-0-
Bond Fund - Principal Account	-0-
Debt Service Reserve Fund	1,468,750
Program Fund - Cost of Issuance Account	371,444
Program Fund - Program Loan Account	14,302,409
Loan Reserve Fund - Loan Interest Account	2,229,425
Loan Reserve Fund - Loan Principal Account	213,835
Total	$18,585,863

Cash and investment balances on hand at June 30, 1985, in the Debt Service Reserve Fund and the Loan Reserve Fund meet the requirements of the 1984 Series A Variable Rate Revenue Bonds Indenture of Trust.

5. 1984 SERIES A VARIABLE RATE REVENUE BONDS OUTSTANDING HEALTH FACILITY LOANS

Health Institution	Outstanding Loans June 30, 1985 Balance
West Mont Habilitation Services, Inc.	$ 258,386
West Mont Home Health Services, Inc.	116,300
North Valley Hospital	467,172
Columbus Hospital	908,429
St. Patrick Hospital	422,463
Bozeman Deaconess Foundation	961,039
St. Luke Community Hospital	486,842
Frances Mahon Deaconess	641,333
Community Memorial Hospital	401,209
Outstanding Health Facility Loans	4,663,173
Unamortized Loan Premiums	(46,443)
Health Facility Loans (net of premium)	$4,616,730

6. REVENUE NOTES PAYABLE (NET)

Issue	Due	Interest Rate	Amount
Frances Mahon Deaconess Hospital Series 1984 Hospital Revenue Notes	1986	7.25%	$1,200,000
West Mont Home Health Services, Inc. Series 1985 Hospital Revenue Note	1986-2004	2% Under Bank Floating Rate	440,000
Revenue Notes Outstanding			1,640,000
Unamortized Note Discounts and Issuance Costs			(8,363)
Notes Payable (Net)			$1,631,637

The Notes are payable solely from Loan Repayments to be made by Health Institutions pursuant to Loan Agreements. The Notes do not constitute a debt or liability of the state of Montana or of any political subdivision thereof or a pledge of the faith and credit of the state of Montana or any such political subdivision, other than the authority, but are payable solely from the funds provided therefor. Neither the state of Montana nor the authority shall be obligated to pay the principal of the Notes, or the interest thereon, except from the funds described above, and neither the faith and credit nor the taxing power of the state of Montana or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the Notes. The issuance of the Notes does not directly or indirectly or contingently obligate the state of Montana or any political subdivision thereof to levy or pledge any form of taxation whatever therefor or to make any appropriation for their payment. The authority has no taxing power.

7. EMPLOYEES' RETIREMENT SYSTEM

The Montana Health Facility Authority (MHFA) employees are covered by the Public Employees' Retirement System (PERS). This plan is administered by the state of Montana. Under PERS, the state contributes 6.417 percent of an employee's gross wages to PERS. All eligible employees contribute 6.0 percent of gross wages. The authority's contribution to PERS for the fiscal year ended June 30, 1985, was $1,936.

The state's policy is to fund accrued pension costs. The unfunded past service costs and the actuarially computed value of the vested benefits are not readily available for the members of the plan employed by the authority. The Public Employee's Retirement System was actuarially sound at June 30, 1984.

8. ANNUAL LEAVE AND SICK LEAVE

Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual

accumulation of vacation. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave.

9. SUBSEQUENT EVENTS

In December 1985, MHFA issued variable rate demand bonds of $66,900,000 for the Pooled Loan Program. A portion of these bonds were used to retire previously issued bonds totaling $23,500,000.

AGENCY RESPONSE

DEPARTMENT OF COMMERCE

TED SCHWINDEN, GOVERNOR

1424 9TH AVENUE

STATE OF MONTANA

(406) 444-3494

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April 22, 1986

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MONTANA LEGISLATIVE AUDITOR

Mr. Scott Seacat
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Scott:

I am pleased with the results of the recent legislative audit of the Health Facilities Authority and want to thank your staff for the cooperation and good working relationship our department enjoyed. As always, the legislative audit process has proved to be a valuable one.

In my view, the services and programs of the Health Facilities Authority are of increasing value to the state. By working closely with your office, we can ensure that these programs continue to serve the people of Montana in an exemplary fashion.

Sincerely,

Keith L. Colbo

Keith L. Colbo
Director